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UNCLAS SECTION 01 OF 02 HONG KONG 000199

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TAGS: [EAIR](#) [ECON](#) [ECIN](#) [TW](#) [MC](#) [HK](#)
SUBJECT: MACAU AIRPORT INTEGRATING SERVICES WITH MAINLAND
MARKETS; MACAU GOVERNMENT BAILS OUT AIRLINES

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¶1. (SBU) SUMMARY: Faced with declining passenger and cargo traffic, the Macau International Airport Company Ltd. (CAM) has ventured into the Mainland's Pearl River Delta (PRD) in hopes of better integrating its cargo and passenger services with the region. An increase in air cargo volume from the PRD in late 2009 spurred CAM to pursue additional integration plans on the Mainland. Meanwhile, Macau government funds have kept the city's two airlines operational, though CAM executives expressed dissatisfaction with the airlines poor business model. With Macau's growing popularity as a tourist destination, they hoped U.S. airlines would soon make use of the existing U.S.-Macau air services agreement and launch services to "the Vegas of the East." END SUMMARY

¶2. (SBU) CAM Executive Director Suning Liu informed EconOff January 21 that a recent study revealed substantial cost savings for shippers who used the Macau International Airport (MIA) as a cargo hub, bypassing the longer and costlier river or truck routes to the eastern PRD airports of Shenzhen or Hong Kong. The Macau Government (CAM's majority shareholder at 55.24%) then engaged Guangdong Province officials with this data to promote trucking services from Jiangmen and nearby cities to Macau. The joint effort led to a 26% year-on-year increase in MIA's cargo volume for December 2009, said Liu. CAM is also pursuing a so-called "Virtual Airport Strategy" whereby it attracts PRD customers through its website portal and partnerships on the Mainland. For example, MIA has started sharing with regional freight forwarders and manufacturers its shipping schedules for supply chain planning purposes. It also started offering on-line check-in and bonded transportation services to Mainland passengers on flights from Macau to Australia, Vietnam, Indonesia, and Japan.

¶3. (SBU) Liu stressed that Macau's two airlines, Air Macau and Viva Macau, needed to join CAM's efforts to support Macau's aviation sector and economic development. She expressed dissatisfaction with the airlines' poor business planning as both airlines' business models lacked the flexibility needed to cope with the industry's challenges. Air Macau was the exclusive holder of Macau's airline concession, and other Macau carriers could only operate under Air Macau-granted sub-concessions. Its business model relied too heavily on serving the once-lucrative Taiwan to mainland China transit market, Liu explained. The establishment of direct cross-Strait flights led to a remarkable decrease in transit passengers, adding to Air Macau's financial woes in an already challenging period. In 2009, shareholders and the

Macau Government provided US\$63.4 million to recapitalize the airline. But instead of seeking alternative markets, Air Macau opted in 2009 to lease its aircraft to Air China, its majority shareholder (52.25%) and China's flag-carrier. Liu lamented this option may have improved Air Macau's bottom line but brought little economic benefit to Macau or its aviation sector.

14. (SBU) Unable to participate in the Air Macau-monopolized short-haul routes and the Taiwan transit business, Macau's low-cost-carrier Viva Macau was pushed to venture into the long-haul market from its inception in 2006. Liu credited Viva Macau with "putting the city" on the map, with routes throughout Japan, Korea, South East Asia and Australia. However, the economic downturn of 2009 and Viva Macau's unsuccessful cost-cutting measures plunged it into financial distress. On January 19, the Macau Government came to its rescue with a US\$25 million loan, a measure reflecting the government's strong support for the city's airline industry, said Macau's Secretary for Economy and Finance Francis Tam.

15. (SBU) CAM handled 4.25 million passengers in 2009, down 17% from the 5.1 million passengers handled in 2008. Air cargo dropped by 48% to 52,260 tons from 100,760 in 2008. For 2010, CAM forecasts handling 4.6 million passengers and 55,000 tons of air cargo, both conservative estimates still below 2008 levels. CAM will continue working with the Macau Government to identify new air routes, promote Macau's tourism industry, and integrate its services with cities on the Mainland. Incentives to airlines opening new routes will continue in 2010.

16. (SBU) The United States and Macau signed an Aviation Transport Agreement (TIAS 12777) in 1996. The agreement gives carriers on both sides broad flexibility to implement

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air services, but no airline has yet made use of it. Macau received more than 250,000 visitors from North America in 2009. As Macau's popularity as a tourist destination continued to grow, coupled with the lowest airport fees in the region, Liu said that air services to Macau by U.S. airlines would prove profitable and should be encouraged.
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